MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BBF 1014 – FINANCIAL MANAGEMENT I

(All sections / Groups)

17 MARCH 2018
9.00a.m – 11.00a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages.
2. Answer all the 4 questions.
3. Please write your answer in the answer booklet provided.

QUESTION 1

a) Judy has decided to purchase a single storey terrace house on February 2018. She intend to apply the mortgage loan of RM338,000 from a commercial bank in Malaysia. After referring to several banks, the best mortgage rate offered to her by one of the commercial bank is 5.60 percent. The loan is to be repaid in equal monthly payments over 20 years. The 3rd payment is due on April 2018. How much is the principal and interest payment. After 3rd payments, how much is the remaining loan balance? (8 marks)

b) Kenneth has just made an offer on a new home and is seeking a mortgage. He need to borrow RM600,000. The commercial bank offers a 30-year mortgage with fixed monthly payments and an interest rate of 0.5 percent per month.

(i) What is the amount of the monthly payment if he makes up his mind to take this loan? (4 marks)

(ii) How much will he still owe on the mortgage after 15 years? (4 marks)

c) Belle is saving for retirement. To live comfortably, she decides she will need to save RM2 million by the time she is 65. Today is Belle 30th birthday, and she decides, starting today and continuing on every birthday up to and including hers 65th birthday, that she will put the same amount into a savings account. If the interest rate is 5 percent, how much must she set aside each year to make sure that she will have RM2 million in the account on hers 65th birthday? (8 marks)

d) You have a loan outstanding. It requires making three annual payments at the end of the next three years of RM1000 each. Your bank has offered to allow you to skip making the next two payments in lieu of making one large payment at the end of the loan's term in three years. If the interest rate on the loan is 5 percent, what final payment will the bank require you to make so that it is indifferent between the two forms of payment? (6 marks)

[TOTAL: 30 MARKS]

QUESTION 2

a) Suppose a five-year, RM1000 bond with annual coupons has a price of RM900 and a yield to maturity of 6 percent. What is the bond's coupon rate? (4 marks)

Continued...

b) Suppose a seven-year, RM1000 bond with an 8 percent coupon rate and semiannual coupons is trading with a yield to maturity of 6.75 percent.

(i) Is this bond currently trading at a discount, at par, or at a premium? Explain. (2 marks)

(ii) If the yield to maturity of the bond rises to 7 percent (APR with semiannual compounding), what price will the bond trade for? (4 marks)

[TOTAL: 10 MARKS]

QUESTION 3

a) Vector firm has the balance sheet accounts, common stock and paid-in capital in excess of par, with values of RM10,000 and RM250,000, respectively. The firm has 10,000 common shares outstanding. If the firm had a par value of RM1, estimate how much the stock sold for? (5 marks)

b) TCH Enterprise just distributed the common stock dividends of RM1.50 per share to their shareholders. The stock dividend is predicted to grow 3 percent in year 1 and 2, then 5 percent growth in year 3 and 4. In year 5 and thereafter, growth should be a constant 6 percent per year. What is the maximum price per share that an investor who expects a return of 8 percent should pay for TCH Enterprise common stock? (10 marks)

c) Parkland Corporation is taking into consideration investment in a project. The estimated beta coefficient of the project is 0.8. What would financial consultant will be proposed Parkland Corporation to do if this project investment has a risk-free rate of 3.5 percent, and rate of return on the market portfolio of assets is 7.5 percent? Briefly explain would this project be a good investment at this time if the expected rate of return is 11.5 percent? (7 marks)

d) How the beta of a portfolio will be same as market beta if 50 percent of the portfolio is invested in a risky security that has two times the amount of non-diversifiable risk as an average risky security. (8 marks)

[TOTAL: 30 MARKS]

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QUESTION 4

a) Suppose that Macker Industries has annual sales of RM10 million, cost of goods sold of RM6.5 million, average inventories of RM1 million, and average accounts receivable of RM600,000. Assuming that all of Macker's sales are on credit, what will be the firm's operating cycle? (7 marks)

b) Briefly discuss how does the increases in the ratio of current liabilities relative to total assets will increase the firm profitability and risk as measured by net working capital? (8 marks)

c) Visme Corporation is required an 'urgent' funds to cover its immediate manufacture. As a financial advisor, do suggest the Visme management on the availability of any TWO (2) of the unsecured short-term funds offered by a commercial bank that can be used to achieve the urgent need of the company. (8 marks)

d) DG Telco Corporation sold RM250,000 worth of 120-day commercial paper for RM248,000. Estimate the *effective 120-day rate* and the *effective annual rate* the firm will pay for financing with commercial paper? (Assume 360-day a year). (7 marks)

[TOTAL: 30 MARKS]

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